



ESTATE, INHERITANCE, AND GIFT TAXES IN CONNECTICUT AND OTHER STATES

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ISSUE

What is the difference between estate, inheritance, and gift (EIG) taxes? What is Connecticut's gift and estate tax and how does it compare to those in other states?

SUMMARY

EIG taxes are taxes levied on the transfer of property (i.e., cash, securities, real estate, business interests, and other assets). Estate and inheritance taxes are imposed on transfers that occur upon the owner's death, while gift taxes are imposed on transfers that occur during the owner's lifetime. A total of 14 states and the District of Columbia impose estate taxes, while six states impose inheritance taxes (Maryland and New Jersey impose both). Connecticut is the only state that imposes a stand-alone gift tax.

Connecticut's estate tax applies to both resident and nonresident estates valued at more than \$2 million. The gift tax is unified with the estate tax, meaning that gifts a decedent made during his or her lifetime are treated as part of the estate. Tax rates are based on the value of the taxable estate or gift. The rates are marginal and range from 7.2% for estates and gifts valued between \$2,000,001 and \$3,600,000 to 12% for those valued at \$10,100,001 and greater. For gifts made on or after January 1, 2016, and estates of decedents dying on or after that date, the maximum amount of tax that a donor or decedent will be required to pay is \$20 million.

Among the District of Columbia and 14 states that impose estate taxes, Connecticut's \$2 million tax threshold ranks in the middle and its 12% top rate ties with Maine as the lowest.

WHAT ARE EIG TAXES?

EIG taxes are imposed on transfers of property, either upon the property owner's death or during his or her lifetime. Table 1 lists the states that impose these taxes.

Estate taxes apply to the taxable value of a decedent's estate at his or her death, after deductions and exemptions. These deductions include property that passes to surviving spouses and qualifying charities.

The estate itself is liable for the tax.

Inheritance taxes (also known as succession taxes) apply to the taxable value of property left to heirs. The tax rates and thresholds vary based on the class of heir to whom the property is transferred. Lineal heirs (e.g., children, grandchildren, and parents) are typically taxed at lower rates than distant relatives or unrelated heirs. The heirs themselves are liable for the tax, but the estate pays it.

Gift taxes apply to property transferred during a property owner's lifetime, thus preventing individuals from avoiding paying estate and inheritance taxes by transferring their assets while alive. The donor is generally responsible for paying the tax.

Table 1: State EIG Taxes

States with Estate Taxes – 14 States and D.C.	
Connecticut	Massachusetts
Delaware	Minnesota
District of Columbia	New Jersey
Hawaii	New York
Illinois	Oregon
Maine	Rhode Island
Maryland	Vermont
	Washington
States with Inheritance Taxes – 6 States	
Iowa	Nebraska
Kentucky	New Jersey
Maryland	Pennsylvania
States with Gift Taxes – 1 State	
Connecticut	

Source: Minnesota House of Representatives Research Department. [Survey of State Estate, Inheritance, and Gift Taxes](#). December 2015; Smith Conway, Karen. [The Connecticut Estate and Gift Tax](#). October 27, 2015.

CONNECTICUT'S GIFT AND ESTATE TAX

Basis

Connecticut's estate tax applies to both resident and nonresident estates valued at more than \$2 million. A resident estate is an estate of a decedent who was domiciled in Connecticut at the time of death. A nonresident estate is an estate of a decedent who was not domiciled in Connecticut at the time of death, but owned real or tangible personal property here. The gift tax is unified with the estate tax, meaning that gifts a decedent made during his or her lifetime are treated as part of the estate. The tax applies only to qualifying gifts that exceed the annual, per-recipient federal exemption amount (\$14,000 for 2016 gifts, indexed for inflation).

The starting point for calculating the Connecticut estate tax is the decedent's gross estate for federal estate tax purposes, minus federally allowable deductions (other than the state death tax deduction). These include the marital deduction, for property that passes to the surviving spouse, and the charitable deduction, for property the decedent leaves to a qualifying charity. The taxpayer must then add to the estate the (1) total value of all Connecticut taxable gifts the decedent made during his or her lifetime, on or after January 1, 2005, other than gifts already included in the decedent's federal gross estate, and (2) amount of any Connecticut gift tax the decedent or his or her estate paid during the three years preceding the decedent's death for gifts the decedent or his or her spouse made ([CGS § 12-391](#)).

Property of a decedent's estate that is treated, for federal estate tax purposes, as qualified terminable interest property (QTIP) is automatically treated as QTIP for Connecticut estate tax purposes. (QTIP trusts are an estate tax planning tool for

married couples used to defer estate taxes until the last spouse dies. They allow property in a decedent's estate to qualify for the marital deduction even though it is subject to certain restrictions.) If an estate did not file a federal estate tax return, or if it filed a federal estate tax return and did not make a QTIP election for federal estate tax purposes, it is eligible to make a Connecticut QTIP election for Connecticut estate tax purposes ([CGS § 12-391\(f\)](#)).

Table 2: Gift and Estate Tax Rates

<i>Value of Taxable Estate or Gift</i>	<i>Marginal Tax Rate</i>
Up to \$2,000,000	None
\$2,000,001 to \$3,600,000	7.2%
\$3,600,001 to \$4,100,000	7.8%
\$4,100,001 to \$5,100,000	8.4%
\$5,100,001 to \$6,100,000	9.0%
\$6,100,001 to \$7,100,000	9.6%
\$7,100,001 to \$8,100,000	10.2%
\$8,100,001 to \$9,100,000	10.8%
\$9,100,001 to \$10,100,000	11.4%
\$10,100,001 and greater	12%

Source: CGS §§ [12-391\(g\)\(3\)](#) and [12-642\(a\)\(5\)](#)

Rate and Maximum Tax

Table 2 shows the gift and estate tax rates that apply based on the value of the taxable estate or gift. As it shows, the marginal rates range from 7.2% to 12%.

For nonresident estates, the tax is calculated and then multiplied by a fraction based on the amount of the decedent's gross estate for Connecticut estate tax purposes that is attributable to real property and tangible personal property located in Connecticut.

For gifts made on or after January 1, 2016, and estates of decedents dying on or after that date, the maximum amount of tax that a donor or decedent will be required to pay is \$20 million ([CGS §§ 12-391\(d\)\(1\)\(D\)](#), [12-391\(e\)\(1\)\(C\)](#), and [12-642\(c\)](#)).

Revenue

In FY 16, Connecticut collected \$221.8 million in gift and estate tax revenue, up from \$176.8 million in FY 15 and \$169.6 million in FY 14, but down from \$439.5 million in FY 13 (Office of Fiscal Analysis and DRS [FY 15 Annual Report](#)).

GIFT AND ESTATE TAXES IN OTHER STATES

A total of 14 states and the District of Columbia impose an estate tax, but only Connecticut imposes a gift tax. Table 3 shows, for each of these jurisdictions, the estate tax exemption amounts (i.e., taxable estate thresholds) and top statutory rates for 2016. As it shows, the exemptions range from \$675,000 in New Jersey to \$5.45 million in Delaware, Hawaii, and Maine. Connecticut's \$2 million exemption puts it in the middle (8th) of the others. The top rates range from 12% in Connecticut and Maine to 20% in Washington.

Table 3: State Estate Tax Exemptions and Top Rates in 2016

State	Taxable Estate Threshold	Top Rate
Connecticut CGS § 12-391	\$2 million (unified gift and estate tax threshold)	12%
Delaware Del. Code Ann. tit. 30, §§ 1501 & 1502	Same as federal (\$5.45 million, indexed to inflation)	16%
District of Columbia D.C. Code Ann. § 47-3702 & 47-181	\$1 million (subject to future increases if revenue surplus targets are met)	16%
Hawaii Haw. Rev. Stat. Ann. §§ 236E-6 & 236E-8	Same as federal (\$5.45 million, indexed to inflation)	15.7%
Illinois 35 Ill. Comp. Stat. Ann. 405/2 & 405/3	\$4 million	16%
Maine Me. Rev. Stat. tit. 36, §§ 4102 & 4103	Same as federal (\$5.45 million, indexed to inflation)	12%
Maryland Md. Code Ann., Tax-Gen. § 7-309	\$2 million (phases up to federal exemption amount in 2019)	16%
Massachusetts Mass. Gen. Laws Ann. ch. 65C, § 2A	\$1 million	16%
Minnesota Minn. Stat. Ann. § 291.03	\$1.6 million (phases up to \$2 million in 2018)	16%

Table 3 (continued)

State	Taxable Estate Threshold	Top Rate
New Jersey <i>N.J. Stat. Ann. § 54:38-1</i>	\$675,000	16%
New York <i>N.Y. Tax Law § 952</i>	\$3.125 million (before April 1, 2016) \$4.188 million (as of April 1, 2016; phases up to federal exemption amount in 2019)	16%
Oregon <i>Or. Rev. Stat. Ann. § 118.010</i>	\$1 million	16%
Rhode Island <i>44 R.I. Gen. Laws Ann. § 44-22-1.1</i>	\$1.5 million (indexed to inflation)	16%
Vermont <i>Vt. Stat. Ann. tit. 32, § 7442a</i>	\$2.75 million	16%
Washington <i>Wash. Rev. Code Ann. §§ 83.100.020 & 83.100.040</i>	\$2.079 million	20%

Source: Minnesota House of Representatives Research Department. [Survey of State Estate, Inheritance, and Gift Taxes](#). December 2015 (updated using state statutes and tax department websites).

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